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## Dan Zanger

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## TRADERS' Interview

# Dan Zanger

# Mastering the Market

■ Dan Zanger, of *Chartpattern.com*, first hit the media spotlight in December 2000 when he was featured in a *Fortune Magazine* article. This article, entitled "My Stocks Are Up 10,000 percent", discussed how he had turned \$11,000 into \$18 million in 18 months (with a return of 164,000 percent). Not mentioned in the article was that in 23 months the total grew to \$42 million. Also not mentioned, except in passing, was much detail about Zanger's trading techniques, indicators, philosophies nor an outline of his typical trading day. It was just

mentioned that Dan believes that certain behaviours exhibit themselves before great run-ups in the market. The article piqued the interest of many readers about the art of technical analysis and provided insight into what is possible for those with skill and dedication. After the first TRADERS' interview (in 2004, February issue) we are now talking to Dan Zanger again to learn more about his trading techniques.

It is no wonder his friends and neighbours were curious. Just five years ago, Zanger was

paying his bills by working in Beverly Hills as a swimming pool contractor, building Hefner-worthy tropical fantasy pools for rich and famous clients. In a good year, he could make 50,000 Dollars.

Dan spent over ten years teaching himself technical-charting analysis of the stock market before starting off on his own. Five years and many millions later, Dan founded *Chartpattern.com* and his successful newsletter. Dan is also a highly sought-after personality in the lecture circuit.

TRADERS': Can you tell us about your trading in the recent years?

**Dan Zanger:** Well, over the past two years I am up some 400 percent on a compounded basis, which is pretty good considering the market was only up eight percent in 2004 and around two percent in 2005.

TRADERS': Did you develop any new approaches?

**Zanger:** I have no new approaches. The ones I have been utilising over the past 15 years work exceptionally well most of the time. My only new twist is that I have just started employing deep-in-the-money call options on the big pricey movers like Google Inc. (GOOG), Chicago Mercantile Exchange (CME) and several others in the \$150 price range and up. The leverage factor is phenomenal.

TRADERS': Can you tell us some details to chart reading? You said you studied the charts for six

years to get successful. What did you discover?

**Zanger:** I discovered that chart patterns repeat themselves over and over again on the big winners. The secret to chart reading is the ability to see these patterns. You can achieve this by training your eye to locate these patterns (which at first seems impossible to do).

TRADERS': Many traders who start with small accounts are blown out of the market in a few months. You started with a very small account and made millions in a very short time. Do you think that is a feat that many traders can duplicate?

**Zanger:** I started with a small account because I was blown out of the water at least three times before I got the hang of it. The key is not getting blown out so you can keep as much trading capital as possible.

Then, when you enter a strong bull market you have the cash, the chart reading

ability and the mentality to load up on one or two of the strongest movers in the market

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and hold on for the ride of your life! So, yes it can be duplicated, but you have to have all of the right conditions to get it done. I can tell you that extremely strong markets that go parabolic like the one that made me all that money in 1998 and 1999 do not come around often, but they do come around.

**TRADERS':** What were your early mistakes in trading?

**Zanger:** I was very green when I started, as everyone is when they get started in trading. No one ever told me what a market correction was, or that it could wipe me out as a margin player, or that these market corrections come about twice a year. I made a quick 400 percent in my first bull market run and then about three to four months later a correction set in and I pretty much gave back all my gains during this time.

That was lesson number one. Lesson number two was to never believe in a stock and lesson number three was to never go "all in" on a single stock. I got crushed on a number of stocks that I was in 100 percent. I believed they could only go straight up.

Until that, one fateful day came where they crashed more than ten points each and I was 100 percent on full margin. Since these stocks were only in the \$30 to \$45 range, a \$15 to \$20 hit on full margin was devastating.

**TRADERS':** What is your general approach in trading? Do you still expect a big move soon after entering the trade, so are you still a momentum trader?

**Zanger:** I am still very much a momentum trader and yes, I do expect a big move each and every time I enter a trade. I must tell you that with my Type-A personality I have no patience for slow moving stocks so if the stock does not move rapidly, I pretty much move to the sidelines and wait for one that does. I must admit, I miss many big movers that are slow movers for this reason, but there is nothing I can do about that in retrospect.

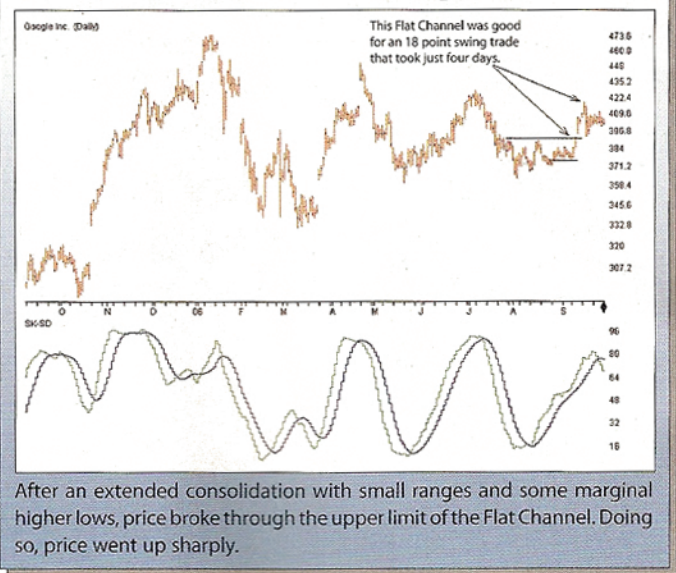
**TRADERS':** Did you have any problems with low volatility and low momentum in the recent years?

**Zanger:** The market seems to move quickly for shorter periods of time these days and then sell down or vacillate with a slight downside bias for much longer periods of time than I have ever seen before. This means I am sitting around looking at my monitors for months, waiting for the market to turn up off the bottom and then quickly jump in for a ride of six to eight weeks and then back to the sidelines for three to four months.

This type of market is keeping all those short-term traders out of the market because they come to the market looking for quick easy short-term gains and there just are not any. By the time these rookie traders come to the market the move has probably expired. This type of market is for the patient trader that knows what is going on and can wait out the long periods of boredom. Over the past two years, I can look back on my portfolio and see that my gains have come in about three to four months of the year with slight down months all the other months in between.

**TRADERS':** What do you think is the hottest market right now, is it commodities?

## F1) Flat Channel Pattern on Google



**Zanger:** As we do this interview here in September 2006, it appears the big bull market in commodities is pretty much over for now as is the bull market in real estate. As the money comes out of these two, once leading sectors, this should add fuel to a move in stocks or at least it could. Right now, here in September we are having a move into technology stocks along with some retailers so I guess these are the best places to be right now.

**TRADERS':** Do you have concepts of risk- and money management that protect you from losing as much as in the last bear market?

**Zanger:** I learned a lot in that "once every 30 years" bear market that we had in 2000 to 2003. The lesson is to not trade bear markets and you will not lose any money.

**TRADERS':** How do you know that there is a bear market?

**Zanger:** Technically, when the market is down by 20 percent or more from its highs it is considered a bear market. Of course, you can be in a bear-like market when stocks break out and fail en masse or stocks run up into new highs with an abbreviated base and then quickly fail. All these scenarios are bear-like market to me and can eat you alive even without the leading averages being down 20 percent or more. This type of market behaviour I just described can often be the precursor to a much bigger downturn for the leading averages.

**TRADERS':** Why do you only trade bull markets? What about short selling?

**Zanger:** In my opinion, the really big money is made during bull markets. Remember, a stock can only collapse 100 percent at most, contrarily in a bull market, a stock can run up a thousand percent and more like we recently saw in a stock like Taser Inc. (TASR) a few years ago or CMGI back in the Internet bubble which moved up some 5,000 percent or more in a mere 20 months!

Shorting is very tough especially for me as I follow only the strongest moving stocks in the market. When they come down in price, perhaps traders find that these stocks are on sale at lower prices and

the stock runs up quickly each time, shaking me out. However, having said that, I have had a few big winners that I shorted successfully. I had 160,000 shares of Ebay (EBAY) at \$106 in January of 2005 when it missed earnings and guided lower after-market as I had hoped for. The stock proceeded to gap-down \$20 in after-hours trading on that news, as I had anticipated. I pocketed a cool \$3.2 million in less than an hour!

**TRADERS:** How much of your equity do you risk for a single trade?

**Zanger:** This depends on how liquid the stock is as well as how fast it is moving. I can have up to 30 percent on a stock that is just starting to move out of a base at the start of a new market move.

**TRADERS:** How do you manage your open trades? And what about your preferred time frame?

**Zanger:** I watch my open trades like a hawk, never taking my eye off the monitor. Depending on the market and the liquidity of the stock I am usually in a stock for up to ten weeks at most. Some trades last for only one or two weeks.

**TRADERS:** How do you place your stops?

**Zanger:** I keep my stops pretty tight at about two points or if it is an expensive stock like a Google (GOOG) then around four points. I must admit though that many times I do not wait for even a \$1 loss before I get out.

**TRADERS:** It must be hard to get stopped out so often. How did you learn to handle this psychological problem? Is it easy for you to cut your losses short, or do you still have to fight yourself to do it?

**Zanger:** It is not hard for me, as the psychological factor is all part of the game I play with trading. After all, if you do not swing often at the baseball, you will not get a hit and many of the strike out kings in baseball often have the most home runs. For me, it is very easy to cut my losses short and I do it often, but I must say that in a choppy, unpredictable market, this will whittle down your portfolio quickly, and it is just part of the game. Learning to identify choppy times

and modifying your trading behaviour is always difficult, I must admit.

**TRADERS:** Do you trade equities only?

**Zanger:** Equities about 98 percent of the time, and sometimes dabble a few of the S&P e-minis once every now and then.

**TRADERS:** Do you know patterns that have worked for years and that are still profitable to trade? Could you give some examples?

**Zanger:** There are many that work well. You just cannot beat the Flat Channel as it is one of the best chart patterns. Next up for me is the Bull Flag and once every so often a Cup and Handle pattern.

**TRADERS:** Please could you give us the details of the Flat Channel Pattern?

**Zanger:** The Flat Channel Pattern is a terrific setup chart that shows a stock trading horizontally for an extended period of time. What this consolidated chart pattern shows us is where the institutions are buying on the dips, and thereby putting a supporting floor or bottom at specific levels. Please see the (GOOG) chart for an example (Figure 1).

**TRADERS:** How many different setups do you use?

**Zanger:** I use many setups such as the ones I have listed above. I have about four to six other minor ones I use for short-term swings and smaller gains. In strong markets that have been running for some time I can even enter a stock off certain daily bars.

**TRADERS:** Please could you describe one of your swing-trading techniques?

**Zanger:** To be an effective swing-trader, one must be able to read and identify not only the chart patterns but also the stock's behaviour. I use volume and price action as a primary indicator of how long to hold a stock. Most stocks that I am swing-trading, I hold for no longer than two weeks until I notice any unusual behaviour and/or high volume. With the stock no longer moving up, I will reduce my position. In addition, as soon as I detect any perceived institutional dry-up in the stock, I am out of the stock immediately.

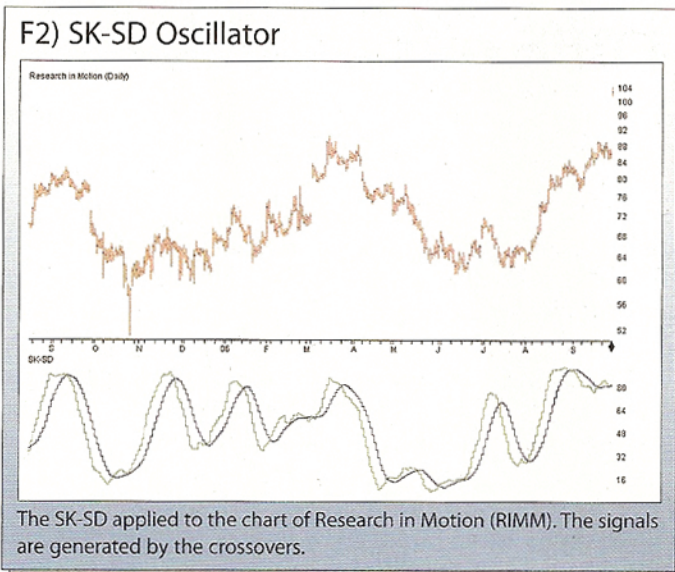
**TRADERS:** Do you use indicators or oscillators?

**Zanger:** I like the McCellan Summation Index. That is a well-known market breadth indicator that is derived from the number of rising and the number of falling stocks. For the Summation Index, the McCellan oscillator is calculated for every day and then summed up. By doing so, the overall market trend can be evaluated.

I often use the SK-SD that AIQ has on its chart system (Figure 2). This indicator involves two components. The SK component is typically a three-day moving average of the stochastic ratio. SK is again averaged over the same number of days to obtain a double smoothed average ratio called SD. I use the adjusted version of this oscillator (by lengthening the default value for the moving average to a ten-day average) to better reflect stock trading.

**TRADERS:** What about statistics, can you tell us something about your average winning trade for example?

**Zanger:** I would love to, but I have no clue what they are! I can tell you



that my accountant was telling me last year that I have lots of losing trades, but that he is very happy that I keep those losses extremely small.

**TRADERS':** Which software do you use? Is it always the very newest and fastest or do you feel better with the older stuff?

**Zanger:** I use the same chart programme that I have been using for 15 years. Nothing new here and no need to change as stocks are still breaking off great bases and running up like they always did.

**TRADERS':** How many different shares do you track? And how many different shares are you able to trade simultaneously?

**Zanger:** I manually scroll through about 1,200 stocks with my AIQ programme after the market closes every day. I then take the best looking stocks and move them to my eSignal monitor where I look at the best 50 to 60 acting stocks in the market during the day. As far as the number of stocks that I trade at one time, it depends on the breadth and strength of the market. Often, I have only five to seven stocks and other times I can have as many as 20. I can tell you that my best returns have come when I have the fewest number of stocks.

**TRADERS':** Do you think that another market as 1999/2000 is possible in the future?

**Zanger:** Well, there was the Tulip Bubble and then we had a stock market bubble in 1929 and again in 1999/2000, so I am sure we will see another one in something somewhere. In fact, I heard that there was a bubble in the Dubai stock market this year due to the sky-high oil prices. I am sure China will see one someday as Japan did 20 years ago. And oh, let us not forget about the real estate bubble in the United States. There always seems to be a bubble somewhere in the world, I just hope I am there when the next one comes around where ever it is.

**TRADERS':** What do you think is the biggest mistake one can do in trading? And what are the most important things for success?

**Zanger:** The most important thing for success is learning to cut your losses quickly and to keep those losses very small. Never ever make an excuse for not selling a stock that is down two to three points from where you bought it! Another mistake people make too often is to personally select the stock they want to own because they did the research and it looked good. I never do this, I always let the market tell me which stocks to own and when to own them and when to sell them. This type of tape reading got me into Google Inc. (GOOG) at \$116 and many others like Taser Inc. (TASR) and Research in Motion (RIMM) at or near the start of their big moves.

**TRADERS':** What do you find most frustrating with trading?

**Zanger:** Whipsaws in a choppy or weak market are by far the most frustrating. They can eat a momentum trader alive!

**TRADERS':** What is your opinion about the current stock market behaviour?

**Zanger:** The market is moving higher because longer-term rates are moving lower and oil has just come down \$15 per barrel as we do this interview. The market is responding with a September rally which is very unusual. Since we are rallying now, I am concerned about October.

For me, it is just a wait and see attitude about any potential fall season rally.


**TRADERS':** Can you give any recommendations, for example the best book you have ever read?

**Zanger:** I suggest a good book like "Encyclopaedia of Chart Patterns", by Thomas Bulkowski. By far, the best book to read is "How to Make Money in Stocks", by William O'Neil. It is a must-read and re-read for all traders. I have personally read this book about six to eight times and selected specific chapters to re-read 30 to 35 times over the past ten years.

**TRADERS':** How do you enjoy your free time? Did your hobbies change with your success in trading the markets?

**Zanger:** With my trading success, my hobbies have changed a lot compared to my work as a swimming pool builder. I love cruising on my yacht and do fun things like jet skiing and snorkelling. I also love to play golf and racquetball to stay fit. I am proud of my wine collection, which is of the best new and old wines. I really enjoy travel and every two months or so, I return to my home in Los Angeles, where I originally developed my trading skills, and this dream all began.

**TRADERS':** Thank you very much. We wish you the best of luck and success for the future.



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